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A spin of the wheel? Defence procurement and defence industries in the Brexit debates

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As the pro-Brexit and pro-Remain campaigns approach maximum velocity in the run-up to the 'in-out' referendum on British membership of the European Union scheduled for 23 June 2016, vociferous debate continues over a range of critical issues. Few have been more hotly debated, along with the migrant crisis and the UK's economy, than the future of the UK's national security. Indeed, ever since David Cameron returned from Europe with his new deal, there has been something of a 'blizzard'¹ of claims and counter-claims concerning whether Britain's international status and ability to respond to existential threats, including the rise of the so-called Islamic State in Iraq and Syria (ISIS) and resurgent Russian nationalism, would be undermined by departure from the EU.²

Those in the 'Remain' campaign essentially argue that leaving the EU would 'threaten' the UK's 'economic and national security'.³ This was precisely the language used in a notable public letter to the *Daily Telegraph* from former chiefs of the armed services, claiming that Europe faces a series of 'grave security challenges' and that the UK is in a 'stronger' position to deal with them from inside the EU.⁴ Those making up the 'Leave' campaign have argued the opposite, accusing Mr Cameron and their opponents of egregious 'scaremongering' and

¹ Jon Hay, 'The Brexit fight is on: look to the big issues', *Global Capital*, 2 Feb. 2016, <http://www.globalcapital.com/article/wbf49lhy8xxc/the-brexit-fight-is-on-look-to-the-big-issues>. (Unless otherwise noted at point of citation, all URLs cited in this article were accessible on 6 March 2016.)

² See e.g. Nick Witney, *Brexit to nowhere: the foreign policy consequences of 'out'* (European Council on Foreign Relations, Nov. 2015), http://www.ecfr.eu/page/-/FP_Brexit_1141.pdf; Oliver Daddow, 'Strategising European policy: David Cameron's referendum gamble', *RUSI Journal* 160: 5, pp. 4–10; Nick Witney, 'The UK in European defence: an open goal for Britain', *RUSI Journal* 160: 5, pp. 12–15.

³ HM Government, Prime Minister's statement following Cabinet meeting on EU settlement, 20 Feb. 2016, <https://www.gov.uk/government/speeches/pms-statement-following-cabinet-meeting-on-eu-settlement-20-february-2016>.

⁴ Steven Swinford and Ben Riley-Smith, 'Military leaders warn against a Brexit', *Daily Telegraph*, 21 Feb. 2016, <http://www.telegraph.co.uk/news/newstopics/eureferendum/12167570/Military-leaders-to-warn-against-a-Brexit.html>.

‘Project Fear’ tactics that exaggerate national security and economic risks if the UK were to exit the EU.⁵

The UK’s national security, then, is a central theme in the UK’s debate over membership of the EU. One of the most important, but often overlooked, elements of this debate is defence procurement and the defence industries. These are vital elements of national security because they ensure that the UK has a secure supply chain, that it has technological advantage over rivals and that it has the freedom to act when and where it chooses. The government has recently acknowledged the key role of UK defence procurement expenditure and domestic defence and security industries in the promotion of national economic growth and prosperity in its National Security Strategy and Strategic Defence and Security Review of 2015.⁶ This is hardly surprising: the domestic defence and security industry has an annual turnover of £30 billion per annum, including defence and security exports worth £11.9 billion, and the government estimates that it employs 215,000 predominantly highly skilled personnel and supports a further 150,000 jobs in supply chains.⁷ Defence procurement is a significant issue for other EU member states, too. European Defence Agency (EDA) research suggests that any reductions in aggregate EU-wide defence procurement spending (including in the UK)

⁵ See Tom McTague and Mark Leftly, ‘EU referendum: Michael Gove attacks David Cameron’s claim Brexit would damage national security’, *Independent*, 20 Feb. 2016, <http://www.independent.co.uk/news/uk/politics/eu-referendum-michael-gove-david-cameron-brexite-national-security-a6886711.html>.

⁶ HM Government, *National Security Strategy and Strategic Defence and Security Review 2015: a secure and prosperous United Kingdom*, Cm. 9161 (London, The Stationery Office), 2015.

⁷ HM Government, *National Security Strategy and Strategic Defence and Security Review 2015*. The source for these employment statistics and to which year they refer are unclear. Up to 2009, the Ministry of Defence (MoD) published annual estimates of national and regional full-time jobs in the UK that were dependent on MoD expenditure and defence exports. In 2009, the government decided that the MoD would no longer publish these estimates on the grounds that the ‘data do not directly support MoD policy making and operations’. The result has been that the last official MoD estimates of UK defence-industrial employment were published in 2009 and refer to employment levels during 2007/08. For an extended discussion, see Andrew Dorman, Matthew Uttley and Benedict Wilkinson, *A benefit, not a burden*, Policy Institute at King’s Paper (London: King’s College London, 2015), pp. 38–42.

following a Brexit would be significant: the impact of each €100 million cut from EU defence industry expenditure would entail a €150 million fall in EU GDP, a €40 million fall in EU tax revenues and the loss of 2,870 jobs, 760 of them skilled.⁸

The lack of attention hitherto paid in the debate to defence procurement and the UK defence industry raises the risk of UK voters being forced to make their choice in the referendum without adequate information about a key area of economic and national security with potentially significant implications for the UK and other EU member states. This would not be the first time in recent UK referendum history. During the run-up to the September 2014 vote on Scottish independence, the handful of analyses of the defence procurement and industrial outcomes of a Scottish exit that did emerge appeared too late to inform pre-referendum debates.⁹ There is currently a real risk of history repeating itself in this respect, raising the urgent need for rigorous analysis to inform public debate as the EU referendum date approaches.

This article explores the arguments likely to be presented by supporters of the Leave and Remain options concerning the potential implications of a Brexit for defence procurement and the defence industries in the UK and in other EU member states. Our basic objective is to expose the underlying assertions and assumptions, the evidence bases and the narratives that are likely to underpin the competing claims and counter-claims in the debate. By so doing, we seek not only to inform all sides of the debate, but also to demonstrate how these arguments will be deployed in the Brexit debate. Ultimately we argue that, in the absence of a strong evidence base, on the crucial element of the key battleground that is national security the fight will be conducted through politics, ideology and spin. In short, it will be left to the fates to decide.

This article is divided into three sections. The first section analyses the context of a Brexit through the prism of the existing level of EU defence procurement integration affecting the

⁸ European Defence Agency (EDA), 'Fact sheet: the economic case for investing in Europe's defence industry', Jan. 2015, <http://www.eda.europa.eu/info-hub/publications/publication-details/factsheet-the-economic-case-for-investing-in-europe-s-defence-industry>.

⁹ See Colin Fleming and Carmen Gebhard, 'Scotland, NATO, and transatlantic security', *European Security* 23: 3, Sept. 2014, pp. 307–25; J. MacDonald, 'A blessing in disguise? Scottish independence and the end of the UK nuclear posture', *European Security* 23: 3, Sept. 2014, pp. 326–43; Andrew Dorman, 'More than a storm in a teacup: the defence and security implications of Scottish independence', *International Affairs* 90: 3, 2014, pp. 679–96.

UK's and Europe's defence industries. The second section constructs the cases that are likely to be presented by pro-Brexit and pro-Remain advocates in the UK and other EU member states. In order to do this, we draw on Jozef Bátora's 'institutional logics' framework to develop two pro-Brexit and two pro-Remain positions.¹⁰ On the one hand, there are pro-Brexit and pro-Remain 'logics' that emphasize the primacy of national defence sovereignty: proponents of these are likely to agree that EU security policy should be developed primarily within NATO and that EU defence market participation should be extended to include non-EU states, but disagree on the implications of a British exit. On the other, there are pro-Brexit and pro-Remain 'logics' that contend that the goal of 'ever closer union' requires the pooling of EU resources in the development of a credible Common Security and Defence Policy (CSDP): here, contention is likely to surround the implications of a Brexit for the fostering of intra-EU defence procurement and industrial cooperation, defence market liberalization and the development of a credible European defence technological and industrial base. In the concluding section, we draw these elements together to explore how the competing logics are likely to play out in the battle of narratives between the 'Remain' and 'Leave' campaigns as the UK referendum approaches.

Defence procurement and industrial policy in the UK and EU

Ever since modern states began to emerge, national governments, seeking to exercise their own sovereignty, have been protective of their autonomy in developing, producing and procuring military goods and services.¹¹ This preoccupation is reflected in international norms that recognize the right of states to retain security and sovereignty through their control over the production and procurement of defence materiel. This normative stance sits in tension with EU initiatives intended to liberalize defence procurement markets, with the result that while the EU has succeeded in creating a single market for public procurement of civil goods and services, the scope for market liberalization in the defence procurement sector has been limited.

Indeed, defence procurement has, in essence, remained largely immune from the drive towards open markets. The current vehicle used by EU member states to ensure that they

¹⁰ Jozef Bátora, 'European Defence Agency: a flashpoint of institutional logics', *West European Politics* 32: 6, Nov. 2009, p. 1093.

¹¹ See Charles Tilly, *Coercion, capital and the European state, AD 990–1990* (Oxford: Blackwell, 1990); Martin van Creveld, *Rise and decline of the states* (Cambridge: Cambridge University Press, 1999).

retain control over defence procurement is article 346 of the 2007 Treaty on the Functioning of the EU (the Lisbon Treaty). This article, which has remained largely unchanged since the 1957 Treaty of Rome,¹² stipulates that:

<ext>Any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the common market regarding products which are not intended for specifically military purposes.<extend>

article 346 provisions have effectively allowed EU member states to ‘set their own rules’ for the tendering of defence-related contracts.¹³ As Jay Edwards observes, this has perpetuated longstanding arrangements whereby

<ext>each member state with indigenous industrial capability ensures that it spends the majority of any investment in defence domestically to protect the industry from any competition and to sustain what has long been seen as a manufacturing sector of strategic significance nationally.¹⁴<extend>

A succession of studies have sought to identify the ‘costs of non-Europe’—essentially, the costs arising from the gaps in and barriers to a truly integrated and competitive EU single market. In the realm of defence, the latest (2015) European Parliament report mapping the ‘costs of non-Europe’ estimates these as ranging ‘from some 130 billion euro, at the high end, to at least 26.0 billion euro per year, on a more cautious estimate’.¹⁵ Or, to put it another way, the failure to integrate comes at a price: ‘The existence of 28 compartmentalised national markets, each with its own administrative burden and regulated separately, hinders competition and results in a missed opportunity for economies of scale for industry and production.’¹⁶

¹² Treaty establishing the European Economic Community (TEEC), 1 January 1958.

¹³ Felix Bungay, *Defence policy and procurement* (London: Trade Policy Research Centre, 2012), p. 11.

¹⁴ Jay Edwards, *The EU Defence and Security Procurement Directive: a step towards affordability?* (London: Chatham House, 2011), p. 4.

¹⁵ European Parliamentary Research Unit (EPRU), *Mapping the cost of non-Europe, 2014–19* (Brussels: European Parliament, April 2015), p. 21.

¹⁶ EPRU, *Mapping the cost of non-Europe*, p. 77.

Despite widespread recognition of the ‘costs of non-Europe’, defence equipment production and procurement are driven by the national interests and sovereignty concerns of member states and thus continue to be *sui generis*. Nevertheless, the European Commission has progressively sought to overcome EU defence market fragmentation and the duplicative defence programmes resulting from the protectionist application of article 346 by the member states.¹⁷ Commission initiatives have focused on stimulating greater intra-EU defence trade by making EU governments put more non-sensitive, non-article 346 defence contracts out to tender. More recently, the Commission’s proposals for a European defence technological and industrial base (EDTIB) have sought to safeguard Europe’s defence markets against international competition and enhance the operational autonomy of the EU states within the CSDP and NATO.¹⁸ In July 2009, the European Parliament and Council adopted Directive 2009/81/EC on defence procurement, the latest Commission-led attempt to confine the use of article 346 by member states to ‘clearly exceptional cases’.¹⁹ These initiatives have had little impact; national protectionist practices—whether motivated by ‘essential security’ considerations or by the desire to preserve domestic jobs and industries—remain the dominant driving force in EU defence procurement. Indeed, the value of Directive 2009/81/EC has been questioned from the outset, as member states have flouted its provisions, either by continuing to promote protectionist procurement practices or by

¹⁷ European Commission, *The challenges facing the European defence related industry: a contribution for actions at the European level*, COM (96) 10 final (Brussels, 1996); European Commission, *Implementing European Union strategy on defence related industries*, COM (97) 583 final (Brussels, 1997); European Commission, *Green paper of 23 September 2004 on defence procurement*, COM (2004) 608 final (Brussels, 2004).

¹⁸ For an extended analysis, see Daniel Fiott, ‘European defence-industrial cooperation: from Keynes to Clausewitz’, *Global Affairs* 1: 2, 2015, pp. 159–67.

¹⁹ For an extended analysis, see Michael Blauburger and Moritz Weiss, ‘If you can’t beat me, join me! How the Commission pushed and pulled member states into legislating defence procurement’, *Journal of European Public Policy* 20: 8, 2013, pp. 1120–38; Fulvio Castellacci, Arne Martin Fevolden and Martin Lundmark, ‘How are defence companies responding to EU defence and security market liberalisation? A comparative study of Norway and Sweden’, *Journal of European Public Policy* 21: 8, 2014, pp. 1218–35; Catherine Hoeffler, ‘European armaments co-operation and the renewal of industrial policy motives’, *Journal of European Public Policy* 19: 3, 2012, pp. 435–51.

exploiting the government-to-government sales exemption in the directive to safeguard their respective domestic defence-industrial bases. The latest EDA estimates, for instance, indicate that approximately 80 per cent of EU defence expenditure not assigned to international collaborative weapons projects is spent nationally.²⁰ Although research sponsored by the European Commission acknowledges that ‘this does not mean that these 80% are exclusively spent on equipment from national suppliers’, it does indicate that the degree of openness to suppliers from other member states has been ‘relatively low’.²¹ The ambiguity concerning the EDA 80 per cent ‘headline’ statistic stems in part from the fact that data collected and provided by national governments are often incomplete. The UK Ministry of Defence (MoD) statistical publications, for example, no longer differentiate between defence equipment and equipment support sourced from the UK and that sourced via direct imports.²² While the European single market is based on the principles of transparency and competition for civil goods and services, then, different rules (and norms) apply for defence materials and services. A recent study for the European Parliament of the impact of Directive 2009/81/EC demonstrated that its impact on pan-EU tendering for defence contracts has been limited.²³ On the one hand, it shows that since the Directive came into force all of the major equipment contracts issued by the EU member states were awarded using article 346 provisions, which suggests that previous national procurement practices have continued. On the other, where pan-EU tendering has been adopted by the member states it has been for contracts ‘dealing with services, the acquisition of equipment deemed to be of low value, and sub-systems’.²⁴ Moreover, the data show that since 2011 the proportion of selected suppliers located on national territory following pan-EU tendering for contracts has reached 98 per cent for Germany, 97 per cent for France, 96 per cent for Italy, 96 per cent for Poland, 92 per cent for the UK, 90 per cent for Romania and 64 per cent for Finland.

²⁰ European Commission, *Towards a more competitive and efficient defence and security sector*, Commission staff working document, Brussels, 24 July 2013.

²¹ European Commission, *Towards a more competitive and efficient defence and security sector*.

²² See Dorman et al., *A benefit, not a burden*, p. 40.

²³ European Parliament, Directorate-General for External Policies, *The impact of the ‘defence package’ directives on European defence* (Strasbourg, June 2015), p. 6.

²⁴ European Parliament, *The impact of the ‘defence package’ directives*, p. 6.

It was against this backdrop of protectionism in defence procurement that the British government launched its overarching ‘review of the balance of competences between the United Kingdom and the European Union’ in July 2012. The review sought to audit what the EU does, how it affects the UK, where competence lies, how the EU’s competences are used, and what that means for the UK’s national interest’.²⁵ Its primary findings relating to defence procurement were threefold. The first was that the European Commission has progressively claimed ‘more competences in this particular area’ and ‘sees an even broader role for itself’, raising concerns about a potential shift of competences from the EU member states to Brussels. The second was that there is scope for the Commission to take a more proactive stance within its existing competence, notably preventing ‘abuses’ of article 346 by those member states using it as a pretext to discriminate against non-national bidders for non-sensitive defence contracts.²⁶ In identifying this possibility, the review reaffirmed the UK government’s support for efforts to open up the EU defence market to more competition and eliminate economically driven ‘buy national’ policies, ‘while respecting member states’ right to maintain certain strategic industrial capabilities for reasons of national security’.²⁷ Finally, the review reaffirmed that the UK government ‘does not support any extension of Commission competence’.²⁸

The clash of ‘logics’: claims and counter-claims over defence procurement and defence industry in the Brexit debates

Taken together, all this suggests that EU institutions have sought greater transparency and competitiveness in public procurement markets, but that when it comes to defence, member states have exploited specific aspects of European procurement policy to ensure greater autonomy in respect of their defence procurement. Defence procurement and defence-

²⁵ HM Government, *Review of the balance of competences between the United Kingdom and the European Union*, Cm. 8415 (London: TSO, 2012), p. 6.

²⁶ HM Government, *Review of the balance of competences between the United Kingdom and European Union. The single market: free movement of services* (London: TSO, 2014), pp. 85–6.

²⁷ House of Commons Defence Select Committee, *Defence acquisition: government response to the committee’s seventh report of Session 2012–2013*, HC 73, May 2013. For an extended analysis, see House of Commons Library, *Leaving the EU*, research paper no. 13/42, 1 July 2013, pp. 85–90.

²⁸ HM Government, *Review of the balance of competences: free movement of services*, p. 42.

industrial policy can, then, be seen as areas in which different ideas and values meet and clash: autonomy with commonality, protectionism with competition. Essentially, these attitudes towards defence procurement and the defence-industrial base can be boiled down to how far member states will and can integrate. Greater integration may make defence procurement options more affordable, but may also come at the price of decreased control over key areas of national security. Conversely, greater autonomy may make defence procurement more expensive, but enable national governments to retain control and sovereignty over these key industries, and to realize the economic and employment benefits of defence procurement at the national, rather than European, level.

By thinking about defence procurement in terms of European integration, we can identify what Jozef Bátora describes as a set of competing ‘institutional logics’.²⁹ Although these logics underpin contested claims about the benefits and costs for defence procurement of EU *integration*, they are also likely to underpin the arguments presented on both sides of the Brexit debate—particularly, the implications of Brexit for defence procurement and the defence-industrial base. To put it another way, both pro-Leave and pro-Remain campaigners are likely to redeploy an existing and well-worn set of arguments or ‘logics’ on the benefits and costs of Brexit for defence procurement. By drawing on Bátora’s framework, we can identify two pro-Brexit and two pro-Remain ‘logics’ that are likely to emerge as the UK approaches its in-or-out referendum (figure 1). In doing so, we expose the underlying assumptions, evidence bases and narratives that are likely to underpin the competing claims and counter-claims in the debate.

²⁹ Bátora, ‘European Defence Agency’, p. 1093. The various ‘logics’ developed in the remainder of this section draw directly from the terminology and taxonomy developed by Bátora.

Figure 1: Taxonomy of ‘logics’, claims and counter-claims

| | <i>Pro-Brexit</i> | <i>Pro-Remain</i> |
|---------------|---|--|
| <i>Pro-UK</i> | <p>Logic 1: <i>‘Leaving will not undermine the UK’s defence procurement options or industrial capabilities’</i> Emphasizes the ‘primacy of defence sovereignty; advocates a Euro-Atlanticist approach; argues that the UK will be able to access liberalized EU defence markets from outside the EU.</p> | <p>Logic 2: <i>‘There’s nothing to lose by staying in, but there are manifold risks for the UK in leaving’</i> Emphasizes the ‘primacy of defence sovereignty; advocates a Euro-Atlanticist approach; argues that the UK’s access to EU defence markets will be impeded if it is outside the EU.</p> |
| <i>Pro-EU</i> | <p>Logic 4: <i>‘A British exit will remove a barrier to other member states’ desire for “ever closer union” and a European Defence Union’</i> Emphasizes the logic of pooled defence resources; advocates a Europeanist approach to production and procurement; supports the ‘Europeanization’ of defence markets.</p> | <p>Logic 3: <i>‘Leaving will undermine the EU’s defence industry so that the EU and UK will rely on the US to an even greater extent’:</i> Emphasizes the logic of pooled defence resources; advocates a Europeanist approach to production and procurement; supports the ‘Europeanization’ of defence markets.</p> |

Logic 1: Pro-UK, Pro-Brexit: ‘Leaving will not undermine the UK’s defence procurement options or industrial capabilities’

The ‘logic’ advanced by supporters of the UK ‘Leave’ campaign in respect of UK defence procurement and the UK defence industry is likely to be predicated on three core assumptions. The first is that EU initiatives to date have had little effect on the national ‘sovereignty’ of the UK or other EU member states because weapons procurement and armaments production decisions remain largely in the hands of national governments (the ‘logic of defence sovereignty’). The second is that EU security policy is developed within NATO, so UK defence acquisition policies can continue to embrace national ventures, joint equipment development and other forms of defence technology transfers with EU and non-EU NATO allies, notably the US (the ‘Euro-Atlanticist logic’). The third is likely to be that EU defence market participation policies purport to allow industrial participation from firms based in non-EU countries as well as EU member states (the ‘logic of liberalization of

defence markets'), so a Brexit should not preclude future market access by the UK-based defence industry.

On the basis of these core assumptions, Brexit advocates are likely to deploy the following arguments in support of the claim that a Brexit will have no detrimental impact on the defence procurement and defence-industrial policies of the UK or the remaining EU-27 member states:

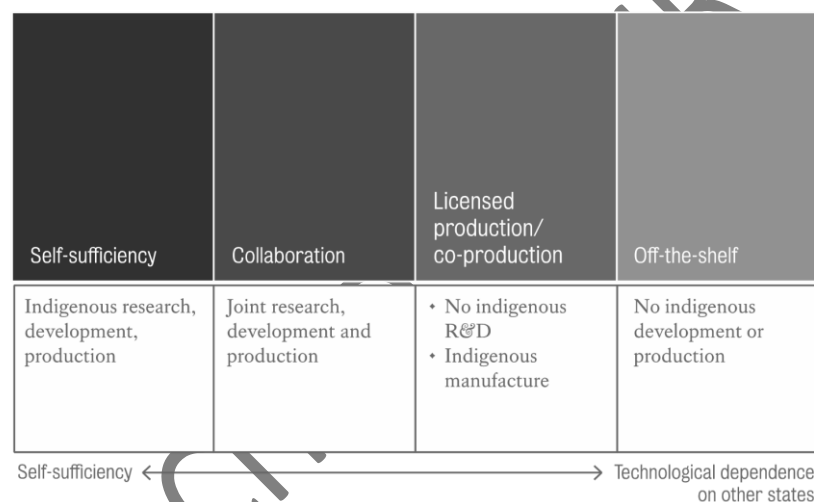
1. The UK currently operates a de facto 'sovereign' defence procurement policy because the influence of EU common market initiatives has hitherto been limited. The UK government's current demand-side policy, recently reaffirmed in the National Security Strategy and Strategic Defence and Security Review 2015, is founded on two core principles. The first is 'open procurement': a default position that 'seeks to fulfil the UK's defence and security requirements through open competition on the domestic and global market'.³⁰ The second is the principle of 'technology advantage', whereby the MoD takes action in procurement decisions to protect 'operational advantage' (the national ability to maintain and upgrade its defence technology) or 'freedom of action' (the ability to operate defence systems free from external intervention), but only where 'this is essential for national security'.³¹ Brexit advocates are likely to argue that a UK exit from the EU would require no modification of what is already a de facto sovereign defence procurement policy predicated on open competition and limited measures to protect forms of operational sovereignty in weapons acquisition. Therefore, operating outside the EU would have no adverse impact on the UK's general procurement approach. At the same time, the UK would no longer have to abide by existing obligations to tender contracts EU-wide, or ensure non-discrimination among EU member states in its assessment of bids.
2. The UK has implemented its demand-side procurement principles through four alternative weapons acquisition strategies (figure 2), ranging from self-sufficient national programmes (e.g. the Queen Elizabeth class aircraft carrier) through European collaborative programmes (e.g. the Eurofighter Typhoon), the manufacture within the domestic industry of technologies designed elsewhere (e.g. the AugustaWestland Apache AH-1 attack helicopter) to forms of inward technology transfer involving NATO and EU allies that include the 'off-the-shelf' import of complete weapons systems from the US (e.g. the Boeing C-17 Globemaster III

³⁰ Ministry of Defence, *National security through technology: technology, equipment, and support for UK defence and security*, Cm. 8278 (London, TSO, 2012), p. 13.

³¹ MoD, *National security through technology*, p. 12.

strategic lift aircraft). Brexit advocates are likely to claim that there is no obvious reason why Britain's exit from the EU would require alteration to its existing 'Euro-Atlanticist' procurement strand of purchasing US-developed defence systems, or its current participation in collaborative weapons programmes with the remaining EU-27 states, which currently account for 26 per cent of total MoD equipment expenditure.³² Moreover, a Brexit would not require the UK to leave the intergovernmental Organisation for Joint Armaments Cooperation (OCCAR), which manages major armament projects such as the A400M tactical and strategic airlift aircraft, so institutional arrangements for collaboration with France, Germany, Spain and Belgium would remain in place.

Figure 2: Alternative British weapons acquisition strategies



Source: Andrew Dorman, Matthew Uttley and Benedict Wilkinson, *A benefit, not a burden*, King's Policy Institute paper (London: King's College London, 2015), p. 25.

3. On the supply side, successive governments have claimed that the UK has 'one of the most open defence markets in the world'.³³ Since 2002, successive UK governments have defined the term 'British defence industry' to embrace 'all defence suppliers [to the MoD and export markets] that create value, employment, technology or intellectual assets in the UK',

³² EDA, *Defence data portal: defence data of the United Kingdom in 2013*, <http://www.eda.europa.eu/info-hub/defence-data-portal/United%20Kingdom/year/2013>.

³³ MoD, *Defence Industrial Strategy*, Cm. 6697 (London: TSO, Dec. 2005), p. 15.

including ‘both UK- and foreign-owned companies’.³⁴ Britain’s ‘logic of liberalization of defence markets’ has enabled major European and US defence firms to establish onshore operations (table 1), compete without discrimination for MoD contracts and export orders, and develop local supply chains in the UK through forms of ‘industrial engagement’. Brexit advocates are likely to claim that Britain’s exit from the EU would not affect the ability of defence firms from the EU-27 or elsewhere from operating as part of Britain’s onshore defence-industrial base.

Table 1: Top 10 Suppliers to the British MoD 2013-2014³⁵

| Company | Ownership | Percentage of UK Ministry of Defence procurement expenditure, 2013-2014 |
|--|------------------|---|
| BAE Systems PLC | UK | 13.9 |
| Babcock International Group PLC | UK | 5.2 |
| Finmeccanica SpA | Italy | 3.6 |
| Airbus Group NV/EADS NV | (trans-European) | 3.6 |
| Rolls-Royce Holdings PLC | UK | 3.0 |
| Hewlett-Packard Company | USA | 2.9 |
| Lockheed Martin Corporation | USA | 2.8 |
| Serco Group PLC | UK | 2.2 |
| The Boeing Company | USA | 2.0 |
| QinetiQ Group PLC | UK | 1.9 |
| Total percentage of UK MoD procurement expenditure | | 41.1 |

4. Advocates of Brexit are likely to argue that Britain’s leaving the EU would have no effect on the country’s foreseeable defence procurement plans and commitments. In October 2015 the MoD published its Defence Equipment Plan 2015, which set out the government’s latest detailed plans cumulatively to spend approximately £166 billion on new equipment and

³⁴ MoD, *Defence Industrial Policy*, policy paper no. 5 (London: Ministry of Defence, 2002), p. 4.

³⁵ Ministry of Defence, *Annual Statistical Series 1, Financial Series 1.01, Trade, Industry & Contracts*, Ministry of Defence, 2014 (Revised 27 November 2014), 2014, p. 14.

equipment support up to 2024/25.³⁶ A significant proportion of expenditure on major projects is already contractually committed.³⁷ Thus far, Britain's onshore defence industry has already been successful in securing involvement in a range of major projects including the Astute Class Submarine (BAE Systems) and the European collaborative Typhoon aircraft (BAE Systems, Airbus Group, Finmeccanica). Moreover, advocates are likely to claim that a Brexit will not alter the MoD's current ability to select from domestic systems, European and US collaborative programmes, and off-the-shelf purchases when placing future orders funded from the currently uncommitted equipment budget.

5. Brexit advocates are also likely to emphasize that as the major markets for UK defence exports are outside the EU, any dislocation caused by a British exit would have a limited impact on national defence trade. The evidence that is likely to be cited here is research commissioned by the European Parliament, which indicates that a negligible 4 per cent of UK defence industry turnover is accounted for by EU sales, with the remainder going to domestic sales (58 per cent) and non-EU export destinations (38 per cent).³⁸

6. Brexit advocates are likely to argue that a British exit from the EU should not adversely affect defence procurement and industrial policy options for the UK or the remaining EU-27 states. They are likely to point out that when the European Commission first published the draft of what became Directive 2009/81/EC on defence procurement, the EU member states raised concerns over whether this would lead to the indirect adoption of a 'buy Europe' policy.³⁹ In response, the Commission reassured the member states that:

³⁶ MoD, *The Defence Equipment Plan 2015* (London, 2015),

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/470058/20151022-Defence_Equipment_Plan_2015.pdf (accessed 11 March 2016).

³⁷ Approximately 70 per cent of the Equipment Plan was contractually committed in 2015/16 falling to 16 per cent at the end of the decade. MoD, *The Defence Equipment Plan 2015*, p. 10.

³⁸ Lucie Béraud-Sudreau, *The extra-EU defence exports' effects on European armaments cooperation* (Brussels: European Parliament Directorate-General for External Policies, 2015), p. 18. Total national defence turnover is estimated by adding domestic defence spending on equipment to estimated export revenues and subtracting estimated imports.

³⁹ For an extended analysis, see Claire Taylor, *EC defence equipment directives*, House of Commons standard note SN/IA/4640 (London: House of Commons Library, 3 June 2011), p. 13.

<ext>This proposal does not in any way interfere with the right of member States to cooperate on defence procurement . . . [nor does it] interfere with Member State sovereignty on security and defence issues: it does not seek to determine what they should procure, or how much they will spend on defence.⁴⁰ <extend>

By inference, Brexit advocates are likely to assert that if EU member states and institutions have no intention of implementing protectionist procurement measures, then existing opportunities for UK–EU defence trade and collaboration after a British exit would be unaffected. Moreover, if, during the withdrawal negotiations, the substance of Directive 2009/81/EC were to be retained, then its applicability to UK procurement would not change.

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<fl>On the basis of these assumptions and arguments, the pro-Brexit position is likely to correspond with Felix Bungay’s contention that:

<ext>In practice the EU currently has little impact on UK defence policy, which tends to be more open to competition than is required by EU directives. Consequently, leaving the EU would have little impact on UK defence procurement. Of greater importance is wider European Defence co-operation, which the UK could still play a significant part in outside the EU given its largely intergovernmental nature.⁴¹ <extend>

Logic 2: Pro-UK, pro-Remain: ‘There’s nothing to lose by staying in, but there are manifold risks for the UK in leaving’

A first pro-Remain logic is likely to frame its arguments as a pro-UK stance that identifies risks of a UK exit and gains from remaining. This logic is likely to provide the primary arguments for the UK ‘Remain’ campaign. This pro-UK pro-Remain position employs the same underpinning logics of ‘defence sovereignty’, ‘Euro-Atlanticism’ and ‘liberalization of defence markets’ adopted by its pro-UK, pro-Brexit opponents. This pro-UK pro-Remain logic is likely to deploy the following arguments:

1. The central assumption in the pro-Brexit case is that the UK would *not be worse off* in the defence-industrial and procurement sphere if it were to exit the EU. Against this, the first pro-UK and-Brexit argument is likely to be that if this is indeed so, then the UK would also be no worse off if it remained in the EU. That is to say, by remaining the UK could continue to operate a de facto ‘sovereign’ defence procurement policy because article 346 provisions

⁴⁰ European Commission, Directorate-General for Internal Market and Services, press conference, 5 Dec. 2007, cited in Taylor, *EC defence equipment directives*, pp. 13–14.

⁴¹ Bungay, *Defence policy and procurement*, p. 18.

would continue to protect national security considerations. Thus the UK would retain its ability to pursue 'open procurement' and to act in procurement decisions in such a way as to protect 'operational advantage' and 'freedom of action'. Equally, the UK would remain free to continue its exiting 'Euro-Atlanticist' procurement approach by combining the purchase of US-developed defence systems and international collaboration with EU partner states on a case-by-case basis. Moreover, the UK would retain the ability to pursue the 'logic of liberalization of defence markets' through its open defence-industrial policy geared towards encouraging EU and US-based defence firms to establish onshore operations in Britain (table 1). Finally, pro-UK pro-Remain proponents are likely to point out that the UK can continue its long-term defence procurement plans and pursue intra-European and global defence exports if it remains in the EU.

2. The second argument is likely to be that the dislocation and uncertainties created by a Brexit risk the future prosperity of the defence element of the UK's defence and security industries sector, which, according to government estimates, directly employs 162,400 people, generates an additional 114,200 indirect jobs in the defence supply chain and creates a further 95,800 induced jobs in the UK economy.⁴² In making this argument, pro-Remain campaigners are likely to cite the findings of the 2015 ADS report *The UK aerospace, defence, security and space industry and the EU*, which presents the only systematic quantitative and qualitative analysis of how membership of the EU impacts on UK-based firms in these sectors.⁴³ The headline findings of the ADS research are that 73 per cent of

⁴² See the foreword and content of Defence Growth Partnership, *Implementing the strategic vision for the UK defence sector* (London: Defence Growth Partnership, July 2014), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/329781/bis-14-953-defence-growth-partnership-delivering-growth-implementing-the-strategic-vision-for-the-uk-defence-sector.pdf
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/329781/bis-14-953-defence-growth-partnership-delivering-growth-implementing-the-strategic-vision-for-the-uk-defence-sector.pdf (accessed 27 March 2015).

⁴³ ADS, *The UK aerospace, defence, security and space industry and the EU: an assessment of the interaction of the UK's aerospace, defence, security and space industry with the European Union* (Farnborough: ADS, 2015). The ADS represents 900 UK-based companies across the aerospace, defence, security and space industries. The report presents the findings of a 2014 ADS/GfK NOP industry intelligence survey of 900 ADS members.

firms believe that EU membership is positive for their business against 1 per cent who said it was negative, and that 86 per cent of ADS members would vote for the UK to stay in the EU against 2 per cent who would vote to leave.⁴⁴ Respondents identified the primary benefits of continuing UK membership of the EU as being the opportunities for free trade within the Union; the simplicity of doing business in Europe because of existing regulations and directives; overall economic growth in the UK economy; access to EU suppliers and supply chains; and the ability to recruit skilled workers because of the free movement of EU labour. Correspondingly, the ADS findings suggest that a Brexit would inevitably jeopardize future foreign direct investment into the UK defence sector because 'non membership would introduce a risk due to uncertainty over the [UK's] post-EU economic environment and how conditions might change over the course of an investment'.⁴⁵ That is to say:

<ext>Because the UK is embedded in the EU supply chains for existing programmes, it is unlikely that an EU exit would impact on industry [involvement in these on-going programmes] over the long run and could be impossible to reverse. If investment decisions on new programmes of work are elsewhere, with EU OEMs [Original Equipment Manufacturers] allocating work within the EU, future generations will feel those impacts.⁴⁶

<extend>

A particular concern that pro-Remain advocates are likely to highlight is the uncertainty to which a Brexit would give rise in respect of the future behaviour of the larger defence companies with operations in the UK that are headquartered in Europe, particularly Finmeccanica, Airbus Group and Thales UK. On the one hand, they are likely to point to uncertainty surrounding whether these companies would continue to invest in a UK that has distanced itself from the wider EU project. On the other, they are likely to suggest that the primary reason that these companies have remained outside the Brexit discourse is that their intervention might inadvertently trigger support for the Brexit camp. Remain advocates are also likely to point to similar concerns about uncertainty concerning future investments by large US firms following a Brexit, notably Northrop Grumman Europe, which is based in the UK.

3. The third argument likely to be advanced from the pro-UK pro-Remain perspective is that an EU exit would not liberate the UK from compliance with EU regulations. Defence

⁴⁴ ADS, *The UK aerospace, defence, security and space industry and the EU*, p. 11.

⁴⁵ ADS, *The UK aerospace, defence, security and space industry and the EU*, p. 14.

⁴⁶ ADS, *The UK aerospace, defence, security and space industry and the EU*, p. 16.

industries based in the UK would still need to comply with the majority of EU regulations in order to trade with EU member states. At the same time, a Brexit would mean that the UK, as a non-member of the EU would have no direct influence over the content of this legislation.

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<fl>On the basis of these arguments, the pro-UK pro-Remain camp is likely to argue that the UK is best served by remaining within the EU and by pursuing its national interests from within.

Logic 3: Pro-EU, pro-Remain: 'Leaving will undermine the EU's defence industry so that the EU and UK will rely on the US to an even greater extent'

The prevailing logic of the second pro-Remain strand is likely to reflect the European Commission's narrative that:

<ext>For CSDP to be credible, Europe needs a strong defence-industrial and technological base. To achieve this objective, it is crucial further to develop the European Defence Industrial Base. To maintain a competitive industry capable of producing at affordable prices the capabilities we need, it is essential to strengthen the internal market for defence and security and to create conditions which enable European companies to operate freely in all Member States, while ensuring security of supply in Europe.⁴⁷ <extend>

This logic is likely to be employed by two distinct constituencies. The first comprises those in the pro-EU, pro-Remain grouping in the UK, and their counterparts in other EU states and institutions, who are committed to the EU goal of 'ever closer union'. The second constituency is likely to comprise pro-UK, pro-Remain campaigners seeking to strengthen their 'Remain' arguments on national security and defence-industrial grounds, but in a manner that explicitly rejects a commitment to 'ever closer union'.

On the one hand, pro-EU, pro-Remain elements committed to the EU goal of 'ever closer union' are likely to emphasize three core assumptions. The first is that collective defence and the industry and armaments production to support it is a common endeavour among the EU states in the development of a credible CSDP (the 'logic of pooled defence resources'). The second is that EU security policy should be developed within the framework of the CSDP by fostering joint defence acquisition programmes developed among EU states only (the 'Europeanist logic'). The third is that EU defence market liberalization should prioritize

⁴⁷ European Commission, 'Towards a more competitive and efficient defence and security sector', memorandum, Brussels, 24 July 2013, http://europa.eu/rapid/press-release_MEMO-13-722_en.htm?locale=en.

intra-EU defence production to create an EDTIB, thereby limiting market access from non-EU defence producers (the ‘logic of Europeanization of defence markets’). On this basis, Remain advocates are likely to claim that Britain’s exit from the EU will undermine the emergence of a competitive and strategically autonomous EDTIB, which, in turn, risks undermining the future ‘security of supply’ of defence equipment sourced from within Europe.⁴⁸ The following arguments are likely to be mustered in support of this perspective.

1. Evidence suggests that the unit production costs of major weapons systems (tactical combat aircraft, guided missiles, submarines, frigates, attack helicopters and self-propelled artillery) have been growing at up to 10 per cent per annum.⁴⁹ National defence budgets in the EU member states have grown at the same time as equipment unit costs have been rising, but budgetary increases have been smaller than and ‘only partially compensate for the concurrent escalation in the unit cost of defence equipment’.⁵⁰ Intergenerational cost increases in major weapons systems can be mitigated by maximizing economies of scale in production to counter costly fixed research and development costs. The US defence-industrial base is able to realize economies of scale because of the high output of its production lines to meet Department of Defence (DoD) equipment demand. Remain advocates are likely to claim that the strategically autonomous EDTIB necessary to ensure long-term security of supply of defence equipment sourced from within the EU requires economies of scale approaching levels achieved within the US defence-industrial base.

2. Remain advocates are likely to claim that the EU member states and the European Commission alike have pursued policies and directives intended to remedy defence-industrial

⁴⁸ European Commission, ‘Towards a more competitive and efficient defence and security sector’.

⁴⁹ See e.g. David Kirkpatrick and Philip Pugh, *Towards Starship Enterprise: are current trends in defence unit costs inexorable?* (London: Aerospace, 1983); D. Kirkpatrick, ‘Rising costs, falling budgets and their implications for defence policy’, *Economic Affairs* 17: 4, 1997, p. 11. For alternative estimates, see N. Davies, E. Eager, M. Maier and L. Penfold, *Intergenerational equipment cost escalation*, Defence Economics research paper.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/280041/18_december_2012.pdf.

⁵⁰ Kirkpatrick, ‘rising costs, falling budgets’, p. 11.

duplication and inefficiency in intra-EU weapons research, development and production.⁵¹

The current level of EU duplication in procurement and production is reflected in the situation whereby EU states have in use a total of 79 different weapons platforms and systems, compared to 21 in the United States, and have in operation 36 major equipment production lines, compared to eleven in the United States.⁵² Moreover, there is currently a transatlantic defence trade imbalance at approximately 7:1 in favour of the United States.⁵³ Nevertheless, Remain advocates are likely to assert that the longer-term effect of Directive 2009/81/EC and other procurement initiatives intended to enhance defence-industrial efficiency and consolidation will ultimately remedy current diseconomies of scale in EU weapons production.

3. On this basis, Remain advocates are likely to claim that Britain's exit would fundamentally undermine initiatives already under way intended to remedy existing diseconomies of scale in EDTIB weapons production, thereby jeopardizing the long-term security of supply of major defence systems from within the EU. By implication, they are likely to claim that a Brexit would increase the likelihood that future major equipment programmes in the EU will confront affordability constraints, thereby increasing the risk that the EU states will become irreversibly dependent on US imports to meet their future national defence and security needs in core capability areas.⁵⁴

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<fl>On the other hand, pro-UK, pro-Remain campaigners seeking to strengthen their arguments are likely to emphasize that staying in the EU provides the UK with future options in the national interest that might be foreclosed if Britain were to leave. In particular, they are likely to emphasize that by remaining in the EU, the UK would retain the option to participate selectively in EDTIB initiatives, measures to ensure long-term UK security of

⁵¹ See e.g. Thomas Callaghan, 'The structural dimension of NATO', *NATO Review* 32: 3, June 1984, pp. 21–6; M. Chalmers, *Paying for defence* (London: Pluto, 1985); Matthew Uttley, 'The integration of west European defense procurement: issues and prospects', *Defense Analysis* 11: 3, 1992, pp. 279–91.

⁵² Valerio Briani, *Armaments duplication in Europe: a quantitative assessment* (Brussels: Centre for European Policy Studies, July 2013), p. 3.

⁵³ Hartmut Kuechle, *The cost of non-Europe in the area of security and defence* (Brussels: European Parliament, 2006), p. 25.

⁵⁴ See Briani, *Armaments duplication in Europe*, p. 2.

supply of defence equipment sourced from within the EU, and other initiatives deemed beneficial to national defence and security.

Logic 4: Pro-EU, Pro-Brexit: 'A British exit will remove a barrier to other member states' desire for "ever closer union" and a European Defence Union'

The second pro-Brexit logic is likely to emanate from frustrations in European member states among those who feel that the UK is an impediment to EU integration, framing their arguments as a pro-EU stance that sees greater opportunities for 'ever closer union' in an EU without the UK. This logic has been largely absent from the wider Brexit debate thus far, but is evident in the results of surveys among Members of the European Parliament (MEPs). A 2013 survey by ComRes found that 20 per cent of MEPs considered that the EU would be better off if the UK left, and 53 per cent thought that the EU 'should be working towards becoming a unified state such as "The United States of Europe"'.⁵⁵ It is noteworthy that the underlying reasoning here has some similarities with the view that the right way to solve the continuing 'euro problem' is for Germany to leave, on the grounds that many of the difficulties have their source in German deflation.⁵⁶

If it were to gain traction, a pro-EU, pro-Brexit position is likely to follow the same logics of pooled defence resources, Europeanist outlook and Europeanization of defence markets employed by the pro-EU, pro-Remain camp to advocate an 'unleashed continental Europe'.⁵⁷ This perspective is likely to deploy the argument that if the UK were to leave the EU then the remaining member states would have the opportunity to develop plans for 'a fully-fledged Political Union with a European Defence Union (EDU)'.⁵⁸ The process of closer political union, it might be argued, would enable ambitious integrationist steps to consolidate the CSDP, create a 'European army' and develop the EDTIB, unhindered by anti-integrationist opposition from the UK.

Narratives over evidence: who will win the national security battleground?

⁵⁵ ComRes, '1 in 5 MEPs say EU would be better off without the UK', <http://www.comres.co.uk/1-in-5-meps-say-eu-would-be-better-off-without-uk-2/>.

⁵⁶ See Ashoka Mody, 'Germany, not Greece, should exit the euro', *Bloomberg View*, 17 July 2015, <http://www.bloombergvew.com/articles/2015-07-17/germany-not-greece-should-exit-the-euro>, accessed 3 March 2016.

⁵⁷ See Peter van Ham, *Brexit: strategic consequences for Europe: a scenario study* (The Hague: Clingendael Institute), 2016, p. 18.

⁵⁸ van Ham, *Brexit*, p. 18.

We have identified above four different ‘logics’ that characterize claims about the benefits and costs of British EU membership for defence procurement and the defence industry. Our contention is that these same arguments will be deployed to support their respective pro-Brexit and pro-Remain campaigns: ‘logics’ 1 and 4 by pro-Brexit campaigners, ‘logics’ 2 and 3 by pro-Remain campaigners.

In practice, ‘logic 4’—which sees the UK as a barrier to other EU member states’ desire for greater political and, by extension, defence union—is likely to be largely irrelevant in UK or wider EU Brexit debates, or in determining UK voter preferences in the forthcoming UK referendum. There is no evidence to suggest that it represents anything other than a minority perspective within EU public opinion or political elites. For UK voters, it presents a self-refuting proposition, representing a position in which the UK leaves the EU on the grounds not that it would be best for the UK, but that it would be best for the EU. For those in the UK who side with the pro-UK, pro-Brexit campaign, the merit of ‘logic 4’ would be that its mere articulation might increase animosity towards the EU in the British electorate, thereby goading ‘undecided’ voters towards the ‘Leave’ option. Ultimately, it is difficult to see benefit for any party in deploying this logic and so we do not see it as a likely position for any party in the referendum.

The remaining three ‘logics’ are more likely to form the bases of the key positions advocated by politicians, parties, institutions and interest groups in the UK and other EU member states. In terms of the forthcoming in–out referendum, the debate is likely to be dominated by the clash between ‘logic 1’ (*‘Leaving will not undermine the UK’s defence procurement options or industrial capabilities’*) and ‘logic 2’ (*‘There’s nothing to lose by staying in, but there are manifold risks for the UK in leaving’*). As we have shown, both logics share the same core normative assumptions and approaches. Both emphasize the primacy of defence sovereignty, both advocate a Euro-Atlanticist approach and both argue that the UK will benefit from access (whether from outside or inside the EU) to a liberalized European defence market. Essentially, then, both logics deploy the same arguments, but take them in opposite directions because they are based on different attitudes towards integration.

In our view, this is why ‘logic 3’ (*‘Leaving will undermine the EU’s defence industry so that the EU and UK will rely on the US to an even greater extent’*) will be the critical battleground of the national security debate in the UK’s in–out referendum. Because the essence of ‘logic 1’ is that the UK will be no worse off in defence procurement and industrial terms following a Brexit, advocates of ‘logic 2’ are likely to deploy elements of ‘logic 3’ in their strategies to tip the balance of the narrative in their favour. Splicing ‘logics 2 and 3’ together, those in the

‘Remain’ camp are likely to argue that leaving the EU comes with manifold risks such as having to rely to a greater extent on the United States, thereby jeopardizing the UK’s ability to act independently and attenuating UK sovereignty. For their part, the ‘Leave’ campaign will be forced to reiterate that a Brexit offers greater independence in procurement and defence-industrial choices and to assert that, out of the EU, the UK has the opportunity to be more supportive of its own defence markets.

‘Logic 3’ is, then, likely to be pivotal for both pro-Brexit and pro-Remain campaigners in the crucial national security aspect of the referendum debates. Part of the challenge facing the UK electorate is the paucity of hard evidence on which to make informed decisions and the multiplicity of ‘known unknowns’. Logics 1, 2, and 3 each make claims about a future that is unclear, with a range of variables that are unknowable, in a world which is uncertain. In the absence of evidence, the battles between advocates of the various logics will be fought through competing narratives and assertions about the desirability of integration, rather than over a base of rigorous evidence. Consequently, the outcomes of these debates in terms of electoral decision will not necessarily be based on strategic advantage or the UK’s place in the world and role in international affairs, but rather on a whole series of arguments relating to sovereignty, autonomy, protectionism and competition.

This is worrying, for a number of reasons. In the first instance, the debate around integration is highly partisan and ideological and so there is a real possibility that long-term choices will be coloured by the politics of integration, rather than the evidence relating to the defence-industrial base and defence acquisition. In the second place, even should the evidence base be marshalled to support competing claims and counter-claims in the national security arena, that evidence base is itself far from robust. The EU’s own claims about the ‘costs of non-Europe’ in the defence sector, for example, encompass an enormous range (€26–130 billion)—a span so wide as to offer no kind of basis on which to make any real assessment about the economic costs and/or benefits of remaining.⁵⁹

Where does this leave us? Lacking the flesh and muscle of reliable, robust data and evidence, we have only the skeleton of a debate—a skeleton whose bones are ideological and political. In that respect, this part of the battle in the 2016 referendum will not be fought over competing data, but over competing narratives and arguments. When it comes down to it, the side that wins may be not the one that most acutely assesses the costs of going it alone or the

⁵⁹ The UK’s own dataset is no better, as we have argued elsewhere: see Dorman et al., *A benefit, not a burden*.

costs of sticking together, but the one that can compile the most comprehensive and compelling story to support its case. This will be a matter of spin: the winner, the side that can spin the argument most persuasively and attract the 'undecideds'. Put in the shortest and most worrying terms, the key national security agenda will come down to little more than a spin of the wheel.

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